

# PERCEIVED ETHICAL LEADERSHIP AND JOB INVOLVEMENT IN THE ECONOMY-SPECIFIC CONTEXT

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**Abstract.** *The aim of this study is to examine the relationship between the supervisor's perceived ethical behavior and work involvement in the context of different economic conditions – those of developed countries and the emerging market economies of the European Union. Economy-specific impact on the perceived ethical behavior of leaders and job involvement as its resultant attitude toward work was assessed by structural equation modeling of the data drawn from the populations of emerging market economies of Central and Eastern Europe and the developed economies of Western Europe. The data for the analysis were drawn from a large-scale European Values Study. Two samples used for the analysis consist of 899 supervisors from four developed economy European countries and 709 supervisors from four emerging economy countries of Central and Eastern Europe. The results provide empirical evidence that economy-specific context impacts the leaders' perceived ethical behavior and its relationship with the attitude to job involvement.*

**Key words:** *ethical behavior, ethical leadership in economy-specific context, job involvement*

## Introduction

Ethical behavior of leaders has become a focus of interest in the field of organizational management due to its impact on individual and group outcome (Koh, Boo, 2001; Loe et al., 2000). There have been studies that focused on construct development and determinant of ethical leadership behaviors (Brown et al., 2005; Honeycutt et al., 2001). Some researchers had explored the consequences of ethical leadership behavior at the organizational level – employees' organizational commitment and trust in leaders (Zhu et al., 2004; Mize et al., 2000), job satisfaction and intent to turnover (Dailey, Kirk, 1992; Koh, Boo, 2001; Sims, Kroeck, 1994). Understanding ethical behavior of the organization's leader is supported by the person-situation interaction explanation of human behavior. Behavioral choices made by individuals are influenced by situational and individual factors. The economic environment of the organization is a powerful factor which shapes the attitudes and behavior of individuals in the organization. The

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impact of the economic context on the ethical leadership behavior is complex and should be explored from diverse perspectives.

A review of the literature reveals a few dominating approaches in this issue – ethical behavior in organizations is country specific due to the economic environment determinants, ethical behavior of managers is also situation and issue specific. The economic environment influences ethical leadership through the complex of direct and indirect effects which are supposed to determine the internal and external conditions of the organization's activity. Overall economic conditions of a country, such as the level of competitive pressure in the markets, resource scarcity, situation in labor market, are the external forces which have the influence upon all activities of the organization and the manner of the leader's conduct in the business transactions as well (Stead et al., 1990; Trevino, 1986; Robertson et al., 1998). It is also likely that economic environment has the indirect effect upon organizational code of ethics and personal ethical values in the more complex interaction of economic situation and culture context (Stajkovic and Luthans, 1997; Robertson et al., 2002). Complexity of the influence is a challenging issue for the analyses, and the question concerning the impact of the economic environment upon the ethical leadership behavior in the organizations is not explored sufficiently in the academic literature. Moreover, the perceived ethical leadership is likely to be related to perceived attitude towards work, which is an important motivational factor for the individuals to achieve performance results. It could be stated that individuals work more productively when they behave in normatively appropriate conduct. Therefore, moral reasoning when persons are focused on an ethical dilemma is related to an individual's perceptions towards the job, and economic environment influences this relationship.

A person's ethical behavior is determined by individual personality and socialization, which represent his or her ethical system. The ethical system as the network of an individual's ethical norms and principles influences the individual's ethical behavior as well as perception towards work. Therefore, it is reasonable to expect that perceived evaluation of personal qualities of the supervisor as the ethical leader are related to perceived attitude towards work. Job involvement is one of such important motivational variables, and ethical behavior is an antecedent of it. It is important to establish the relationship between the organizational variables of ethical behavior and job involvement, however, no empirical studies have been conducted to determine how perceived characteristics of ethical behavior of the supervisor influence work involvement. Business ethics background emanates from the economic environment of the business organizations. Therefore, exploration of the differences in perceptions of ethical leadership in the various economic settings enables to substantiate the hypothesized effect of economic environment on the ethical leadership in organizations. The emerging market economies and developed economies are traditionally characterized as dissimilar from the viewpoint of ethical attitude in business transactions. However, countries within these two groups are homogenous from the standpoint of overall level of economic wealth and conventional

attitude to business ethics, molded by the experience in business transaction issues. It is reasonable to hypothesize that the relationship between the supervisors' perceived ethical behavior and work involvement is divergent in the context of emerging market and developed economies.

*The purpose* of this study is to examine the relationship between the supervisor's perceived ethical behavior and work involvement in the context of different economic conditions – those of developed economy countries and emerging market economies of the European Union.

## **Ethical behavior in organizations and ethical leadership**

Behavior research supports the notion that individual personality and situational factors influence the behavioral choices made by individuals. The interactionist model of ethical decision making in organizations, proposed by Trevino, suggests that ethical decisions are the results of the interaction of the individual's stage of cognitive moral development, involving individual and situational components (Trevino, 1986). The author highlighted three individual variables important as predictors of a person's behavior in response to ethical issues: ego strength, field dependence and locus of control. Situational components arise from immediate job context and organizational culture (Trevino, 1986, p.602). Stead et al., based on the literature review, suggested that employees' behavior concerning ethical issues is determined by the factors of background, personality, decision history, managerial philosophy, and reinforcement (Stead et al., 1990).

Social characteristics also influence ethical system. Using a laboratory experiment, Hegarty and Sims evaluated unethical decision behavior under different policy and environmental conditions. The results show that unethical behavior is related to personality, cultural and value orientation, and contingencies of reinforcement (Hegarty, Sims, 1978). Bandura's social learning theory holds that behavior is determined by expectancies and incentives. Behavior of the manager as the incentive, valued by the individual, represents an organizational factor, influencing the behavior of individuals in the organization (Bandura, 1977, 1986). Ethical behavior of leaders is an important predictor of organizational behavior. Brown et al. proposed a constitutive definition of the ethical leadership construct, based on social learning theory (Brown et al., 2005). The authors related ethical leadership to consideration behavior, honesty, trust in the leader, interactional fairness, transformational leadership and abusive supervision. They proposed a definition of ethical leadership as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement and decision making" (Brown et al., 2005, p.120). Trevino et al. identified multiple dimensions of ethical leadership such as people orientation, visible ethical actions and traits, ethical standards and accountability, broad ethical awareness (Trevino et al., 2003). Zhu et al. summarized the teleological and deontological theoretical perspectives of ethics, outlined by Frankena, and suggested that ethical

leadership behavior is guided by fair and unbiased treatment of employees. (Zhu et al., 2004, p.17; Frankena, 1973). Therefore, it could be summarized that the concept of ethical leadership behavior in the academic literature stems from two perspectives – the perspective of behavioral choices made by individuals and the perspective of conduct through personal actions and interpersonal relationships.

### **Ethical leadership and job involvement**

Paullay et al. defined job involvement as the degree to „which one is cognitively preoccupied with, engaged in, and concerned with one’s present job“ (Paullay et al., 1994, p.224). Li and Long (1999) define job involvement as the degree to which one shows emotional or mental identification with his job. Lodahl and Kejner explored the phenomenon of job involvement and proposed that job involvement reflects the extent of importance of work in the worth of individual (Lodahl & Kejner, 1965). Highly involved individuals relate performing well in their job to their self-esteem (Lodahl, Kejner, 1965). Therefore, job involvement is considered as an important attitudinal variable for the individuals with high job involvement.

Ethical leaders express an ethical identity and send clear messages about ethical values. They are concerned to take responsibility for their own actions and encourage commitment to the organization (Trevino et al., 2003). When employees care about and feel attached to their organization or leader, they will be more likely to invest effort to attain the common goals (Den Hartog & Belschak, 2007). Grojean et al. (2004) suggest that leaders establish the expectations regarding ethical conduct that become engrained in the organization’s climate. Commitment to the organization is emphasized through the practices and expectations, which are influenced by the salience of ethical values. Therefore, ethical conduct of the supervisor as a member of the organization stimulates individuals’ relationship with the working environment and the job itself. According to those normative and social learning perspectives of ethical leadership, it could be proposed that the supervisor’s perceived ethical behavior will foster his involvement in the job.

Individuals who are ethical and attain social values are moral people. The qualities of a person as the ethical leader, like integrity or honesty, are moral values and ethical identities, which also form positive attitudes toward the organization and job. This attitude contributes to the degree to which the individuals are involved in their present job. Personal qualities of the supervisor as the ethical leader are related to perceived attitude towards work. Thus we propose a hypothesis:

*The supervisor’s perceived ethical leadership is positively related to job involvement.*

### **Influence of economic conditions on ethical behavior of managers**

Individuals’ reaction to ethical situations is determined by the internal organizational and external conditions. Conceptual models of ethical behavior in organizations,



proposed by Stead et al. and Trevino, demonstrate that organizational factors exist in some social, economic and cultural environment (Stead et al., 1990; Trevino, 1986). Stead et al. distinguished such external forces as volatile economic conditions, resource scarcity, pressures from stakeholders (Stead et al., 1990, p.236). According to Stead et al., competitive pressures represent negative impact on business ethics due to concentration on short-term earnings and varying ethical standards in different countries. However, in some situations, high ethical standards in organization could support the increase of organizational outcomes due to improvement in profitability (Stead et al., 1990).

Stajkovic and Luthans (1997) in their social cognitive model of cross-cultural business ethical standards examined a national culture as a unique context, which is likely to influence organizational code of ethics and personal values and which may result in different business ethical standards. These researchers highlighted theoretical models of national cultures, proposed by Hofstede (1984) and Trompenaars (1994), as the background for the analysis. Hofstede (1984) distinguished such dimensions of national cultures, as power distance, uncertainty avoidance, individualism vs. collectivism, material success vs. caring and quality of life and long-term-short-term-orientation. Trompenaars (1994) proposed the following dimensions of cultures: universalism vs. particularism, individualism vs. collectivism, neutral vs. affective, specific vs. diffuse, achievement vs. ascription, orientation towards time and the environment.

Theorists contend that socio-economic and situational factors are important for the moral reasoning when persons are faced with an ethical dilemma. Soon (2003) investigated the effects of self and organizational interest considerations on individual ethical judgment in three naturally occurring socio-cultural settings. Results showed that organizational interest effects on the ethical judgment vary in groups of different nationalities. Robertson et al. examined if certain strategic situations (enhancement of firm profits vs. personal economic well-being) cause decision makers from different cultures to act ethically when an environmental issue is at stake (Robertson et al., 1998). Their results support the proposition that managers, regardless of culture, will be more ethical regarding ecological issues when firm profitability is at stake than they will be when their own personal well being is at stake. Some support was also found for the hypothesis that managers from collectivist societies will be more ethically orientated toward ecological issues than managers from individualist societies. Robertson et al. surveyed services managers from different countries about their ethical beliefs when faced with various ethical dilemmas and suggested that complex interaction of situation, culture and ethical issue conditioned the ethical judgments of individuals (Robertson et al., 2002).

Ethical behavior of organizations and individuals in the context of the economies of different level of development has been analyzed by several researchers. Cordeiro explored some aspects of academic debate concerning the ethical obligations of multinational enterprises (Cordeiro, 2003). His findings were based on the

stake-holder theory. The author posits that moral obligations to be ethical should be dominated independently in a “state of nature” (Cordeiro, 2003, p.327), and multinational organizations acting in volatile environment of transitional economies reasonably should promote ethical habits. Su and Richelieu analyzed the perceptions and attitudes of western managers working in Romania. Their findings suggest that the new environment of business ethics in the host country influences western managers despite the different background (Su & Richelieu, 1999).

Therefore, the impact of external environment on the ethical behavior in organizations is complex and should be explored from diverse perspectives. A review of the literature reveals a few dominating approaches in this issue – ethical behavior in organizations is country-specific and nationality-specific due to the cultural determinants and the economic environment, the ethical behavior of managers is also situation and issue specific. The economic environment influences ethical leadership through the complex of direct and indirect effects which are supposed to determine the internal and external conditions of the organization activity. The level of income per capita, the rate of unemployment, the level of the competition in the market, shortage of highly skilled employees, the level of institutionalized corruption in business encounters shape the manner of the behavior of the individuals in the organization. Higher unemployment could lead people to value their jobs more, and this supports enhancing their moral obligations to the organization and commitment to the importance of ethical values. The competitive pressures enforce the organizations to develop the organizational human resources and the organization’s ethical standards as the sources of competitive advantage. However, in some situations reciprocal actions to the competitive pressure may raise the objectives of earnings and profitability at the expense of ethics. Low income and low wages for the employees may lead to low costs of job exchange and higher level of personnel turnover, which in turn have an impact on lowering incentives to sustain ethical standards in the organization.

The question posed in this paper concerns the relationship between the perceptions of ethical leadership and perceived job involvement in the economies with different business ethics background. It is argued that differences exist between the state of business ethics in the emerging market economies of Central and Eastern Europe and developed Western Europe countries (Su & Richelieu, 1999; Bohata, 1997). Emerging market economies traditionally are characterized as economies with low to middle (per capita) income and high growth. Increasing of overall production levels and gross domestic product is considered as a typical feature of emerging market economies. Enlargement of production levels raises the importance of the physical and human capital amount as well as labor productivity issues. Labor market is faced with high demand for the highly skilled personnel which is able to initiate and adopt innovations and generate high value management decisions. However, the number of the low skilled personnel exceeds the demand. It is likely that the economic factors of low personal income and situation in labor market determine the individual’s behavior in response to ethical issue. The emerging market economy relations raise the importance of the

traditions of honourable attitude in business transactions. The ability of the business leaders to take proper strategic decisions withstanding the competitive pressure is usually acquired by management experience. This issue is not the case for the inexperienced business leaders of emerging market countries.

Taking the above into account, this paper proposes a research question:

- RQ To test the effect of economic environment on the relationship between the supervisor perceived ethical leadership and job involvement by modeling this relationship with the data drawn from the populations of the emerging economies of Central and Eastern Europe and the developed economies of Western Europe.

## **Method and measures**

The data of the European Values Study 1981-2008 was used for the analysis (EVS, 2011). This large-scale cross-national study provides the longitudinal data, based on a cross-sectional self-report questionnaire on attitudes towards life values, social values and work, religion, politics. Comprehensive data on ethical leadership and job involvement were available for Finland, France, Germany, Sweden, Poland, Slovenia, Bulgaria, and Romania. Therefore, data for Western Europe countries – Finland, France, Germany, Sweden (date of collection 2006), and the emerging economies of Central and Eastern Europe – Poland, Slovenia, Bulgaria, Romania (date of collection 2005, and 2006 for Bulgaria) were sampled from the European Values Study data file. The data of the respondents who reported that they are supervising someone was selected for the analysis. After listwise deletion, two samples, comprised of 899 supervisors from the developed economy European countries and 709 supervisors from the emerging economy countries of Central and Eastern Europe were prepared for the study.

Perceived ethical leadership was assessed with two items selected from the perceived content domain of executive ethical leadership (Trevino et al., 2003) – people orientation and honesty (self-reported predisposition to proper behavior).

Measures for job involvement were selected from the Kanungo (1982) scale. For the population of developed European countries four items were used to assess three measures of job involvement - the degree of psychological importance of one's work as life value, the degree of job involvement as situationally determined individual characteristic and the importance of the job to one's self-esteem. For the population of emerging economy countries three items were used to assess two measures of job involvement - the degree of psychological importance of one's work as life value, and the degree of job involvement as a situationally determined individual characteristic. In order to get a positive definite input covariance matrix, correlated variable (importance of the job to one's self-esteem) was deleted.

Particular data on the perceived attitude were available from the European Value Study data file.

LISREL structural equation modeling technique was used to test the hypothesized relationship between two constructs (Jöreskog & Sörbom, 1986). A disaggregated approach was taken, using each item as a separate indicator of the latent variable. The hypothesis and the research question were tested by using each sample covariance matrix separately. Two sets of LISREL analyses were performed to test the models. The fit of each model was assessed with three indices – the chi-square/degree of freedom ratio, the goodness of fit index GFI, the root mean square error of approximation RMSEA.

## Results

The correlation matrix, means and standard deviations are presented in Appendixes A and B for the samples of developed countries and emerging economy countries respectively. The results of the proposed models (Figure 1, Figure 2) indicate a good fit to the data:  $\chi^2/df = 20.24/8$ ,  $p < 0.01$ , GFI = 0.99, RMSEA = 0.04 for the first model for developed economy countries and the second model for emerging economy countries sample:  $\chi^2/df = 7.18/4$ ,  $p > 0.05$ , GFI = 0.99, RMSEA = 0.03.

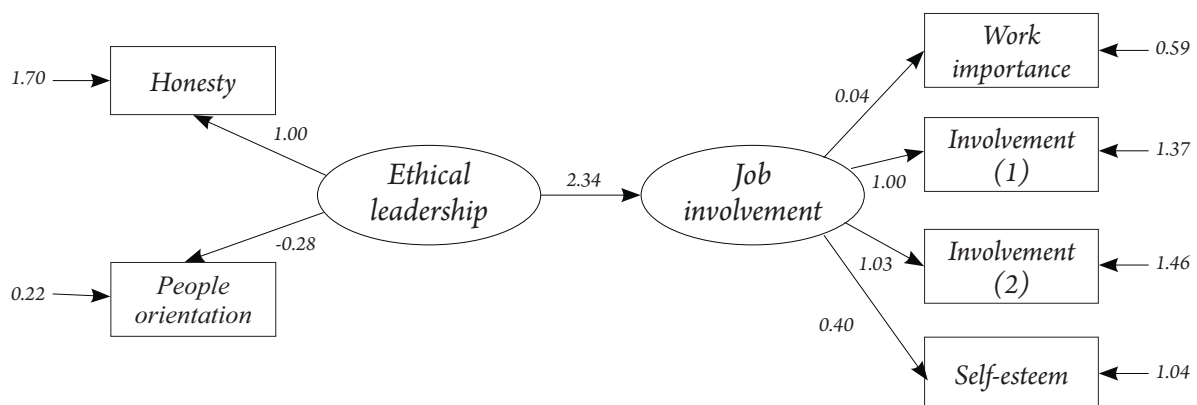


FIGURE 1. Perceived ethical leadership – job involvement model in the sample of developed economy European countries

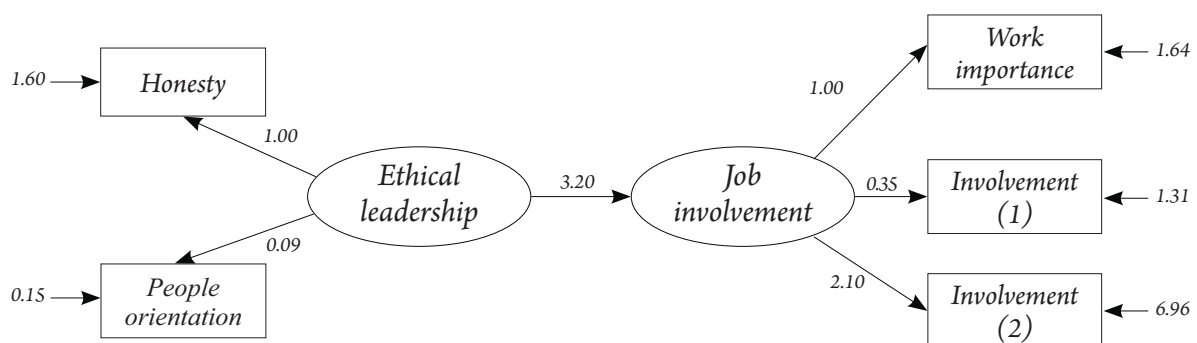


FIGURE 2. Perceived ethical leadership – job involvement model in the sample of emerging market economy countries of Central and Eastern Europe



The estimated parameters of structural equations indicate that a supervisor's perceived ethical leadership is positively related to job involvement, the parameters are significant. The results of the LISREL analyses of the data, sampled from two different types of population, were comparable and provided evidence for the validity of the relationship between the different constructs. This finding supports the proposed hypothesis.

Standardized parameter estimates (irrespective of the differences in the measurement of job involvement construct in the two samples) could be compared within two equations. Standardized parameter of the linkage between the perceived ethical behavior and job involvement is 0.92 for the sample of developed economy European countries (compatible unstandardized gamma estimate 2.34) and 146 for the sample of emerging market economies (unstandardized gamma estimate 3.20). The relationship between ethical leadership and job involvement is greater among the supervisors in the emerging market economy countries as compared to developed countries.

The difference in the strength of linkages between the constructs shows that theoretical proposition of this paper about the significant effect of economic environment on the ethical leadership behavior and job involvement is supported by the data.

Data analysis also reveals that mean values for the measures of ethical leadership behavior significantly differ in both samples: Honesty mean measure for the sample of developed economy countries equals 3.27 (std. deviation 1.42,  $t = 6.34$ ) and is significantly different from that in emerging market economy countries 2.64 (std. deviation 1.30,  $t = 6.54$ ); People orientation mean measure for the sample of developed economy countries is 1.46 (std. deviation 0.50,  $t = -11.96$ ) and for the sample of emerging market economy countries it is 1.81 (std. deviation 0.39,  $t = -12.84$ ). Managers from developed economy European countries are less predisposed to endow a meaning for the proper behavior than those from Central and Eastern Europe. It is likely that trust backed-up attitude to other people is more prevailing among the managers from the developed economy European countries than those from Central and Eastern Europe.

## Discussion

This study addressed a need to better describe ethical leadership phenomenon and its resultant outcomes toward work. In conducting this study the notion of comparability of the relationship between the constructs in various economic conditions was considered. This examination demonstrates that individual predisposition to ethical conduct is related to the attitude toward the job, and this relationship is affected by the economic environment.

Much of the academic literature discusses and explores the concept of ethical leadership and factors of influence, naming the national and cultural factors as very powerful. However, there is not much research providing empirical analysis of ethical leadership in different cross-country contexts, like the countries of emerging market economy and developed economy. Therefore, the present results cannot be directly compared with the empirical findings of prior research. To some extent, the results are

consistent with previous research which posits the influencing character of national culture as a country variable (Stajkovic & Luthans, 1997; Robertson et al., 1998; Su & Richelieu, 1999) and concur with the findings of Cordeiro (2003).

The LISREL model comparisons of the relationships among the constructs, provided in this research, indicate the definite predictive link between perceived ethical leadership and job involvement, supporting the proposition of the economy-specific context influence on the magnitude of the relationship and perceived ethical leadership patterns. However, further research should be provided to investigate how economy-specific phenomena influence the ethical leadership patterns.

Some limitations of this research could be related to the measurement of manifested indicators which operationalize the constructs. Variables in this research were measured according to the methods recommended in the literature. However, the variables measuring ethical leadership are single-item constructs, and possibility that multi-item scales could provide different results still remains. The results also need to be considered in the light of the limitation due to the common method bias. Self-report studies have been used frequently in the studies of organizational behavior, however, this type of report requires caution as to the validity of the results. The observed correlations among the constructs of interest could be caused by the monomethod bias rather than the associations between the constructs themselves (Spector, 1994). This problem of monomethod bias in the present research is reduced by cross-sectional design of the questionnaire, which provides the insights into the peoples' perceptions of different phenomena of interest. This study attempts to test whether a person's self characteristics of the qualities of ethical behavior are related to their perceptions of work involvement. Structural equation modeling applied for the data analysis is appropriate to match this question of research.

## **Conclusions**

The results of the present study provide the evidence for the validity of the link between the supervisors' perceived ethical leadership and job involvement as its resultant outcome. Perceived personal qualities of the supervisor as the ethical leader are positively related to the attitude towards work. Modeling the impact of ethical leadership behavior on its resultant attitude towards work using the data drawn from the populations of emerging market economies of Central and Eastern Europe and those of developed economies of Western Europe, we provide the empirical evidence that economy-specific context impacts the leaders' ethical behavior. Therefore, the results of the present empirical analysis demonstrate that economic environment has an effect on the ethical behaviors of the leaders. This finding hopefully contributes to the academic discussions which address the question of ethical leadership concept and how it is related to economy-specific context. Considering the importance of the leaders' ethical behavior to the performance of business entities, further research may wish to develop a theoretical model that attempts to provide the reasoning for the economy-specific phenomena in relation to ethical leadership.

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## Appendix A

### Descriptive statistics and correlation between indicator variables in the sample of the developed economy European countries

	Variable	Mean	Std. deviation	1	2	3	4	5	6
1	Work importance (4-point Likert scale, 1- very important, 4 – not important)	1.61	0.78	0.6					
2	Situationally determined job involvement (1) (composite of 2 items, 5-point Likert scale, 1- very important, 5 – not important )	4.64	1.8	0.03	3.23				
3	Situationally determined job involvement (2) (composite of 2 items, 5-point Likert scale, 1- very important, 5 – not important )	5.48	1.85	0.09 (*)	0.56 (**)	3.44			
4	Importance of work to self-esteem (5 point Likert scale, 1- very important, 5 – not important )	2.9	1.16	0.02	0.36 (**)	0.36 (**)	1.35		

	Variable	Mean	Std. deviation	1	2	3	4	5	6
5	Honesty (6-point Likert scale, 1- strongly agree, 6 – disagree)	3.27	1.42	-0.01	0.30 (**)	0.24 (**)	0.12 (**)	2.01	
6	People orientation (2-point scale, 1 – agree, 2 – disagree)	1.45	0.5	0.03	-0.18 (**)	-0.24 (**)	-0.10 (**)	-0.11 (**)	0.25

\*\* - Correlation is significant at 0.01 level (2-tailed), \* - correlation is significant at 0.05 level;  
average variance in diagonal.

## Appendix B

**Descriptive statistics and correlation between indicator variables in the sample of the  
emerging market economy countries of Central and Eastern Europe**

	Variable	Mean	Std. deviation	1	2	3	4	5
1	Work importance (composite of 2 items, 4-point Likert scale, 1- very important, 4 – not important and 5-point scale, 1 – very important, 5 – not important)	3.86	1.42	2.03				
2	Situationally determined job involvement (1) (6-point Likert scale, 1- very important, 6 – not important )	2.35	1.17	0.02	1.36			
3	Situationally determined job involvement (2) (composite of 2 items, 5-point Likert scale, 1- very important, 5 – not important and 10-point scale, 1 – very important, 10 – not important)	6.06	2.95	0.20 (**)	0.10 (**)	8.68		
4	Honesty (6-point Likert scale, 1- strongly agree, 6 – disagree)	2.64	1.3	0.17 (**)	0.06	0.14 (**)	1.68	
5	People orientation (2-point scale, 1 – agree, 2 – disagree)	1.81	0.39	-0.02	0.05	0.06	-0.02	0.15

\*\* - Correlation is significant at 0.01 level (2-tailed);  
average variance in diagonal.